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FM AMEMBASSY NDJAMENA
TO RUEHC/SECSTATE WASHDC 3141
INFO RUEHUJA/AMEMBASSY ABUJA 0928
RUEHDK/AMEMBASSY DAKAR 0976
RUEHLC/AMEMBASSY LIBREVILLE 0684
RUEHLO/AMEMBASSY LONDON 1157
RUEHNM/AMEMBASSY NIAMEY 2434
RUEHFR/AMEMBASSY PARIS 1541
RUEHYD/AMEMBASSY YAOUNDE 0898
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOC/USDOC WASHDC
RHEBAAA/DOE WASHDC

UNCLAS SECTION 01 OF 02 NDJAMENA 000243

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LONDON AND PARIS FOR AFRICA WATCHERS, TREASURY FOR OTA,
ENERGY FOR GPERSON AND CGAY

E.O. 12958: N/A
TAGS: CD ECON EFIN ENRG EPET PGOV
SUBJECT: CHAD: NEW DEVELOPMENTS ENHANCE GOC REVENUES, BUT
BUDGETARY WOES CONTINUE

REF: NDJAMENA 182 AND PREVIOUS

¶1. (SBU) SUMMARY: While discussions between the Government of Chad and the World Bank over revisions to the revenue management law remain at an impasse, other developments are affecting the country's oil sector. The agreement between the GOC and the Taiwan state-owned China Petroleum Company has introduced a new player in the Chadian oil market, and has injected much-needed cash into the economy. The GOC is nevertheless struggling to deal with the deficit projected in the 2006 budget due to suspension of World Bank and IMF assistance. Meanwhile President Deby has lashed out at the 1988 Convention between the GOC and Esso. His concerns over the country's budgetary shortfalls may dissipate when he realizes the large windfall from the Consortium's tax payments coming his way. END SUMMARY.

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GOC-TAIWAN OIL DEAL: 17 MILLION MORE
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¶2. (SBU) The January 18 GOC-Taiwan oil exploration agreement has been hailed by Chadian and Taiwan authorities as an extremely positive development in ties between the two countries. Outgoing Taiwanese Ambassador to Chad, Cheng Shin, told Ambassador on February 2 that the agreement would be extremely beneficial for the Chadians and the Taiwan China Petroleum Company (CPC), which had always been keenly interested in entering the Chadian petroleum sector. Taiwan First Secretary Alex Hu added that while actual discovery of oil would probably not occur for nearly four years, the actual exploratory phase would still benefit Chadian through employment opportunities and infrastructure development.

¶3. (SBU) Minister of Petroleum Nasser Hassan told the Ambassador on February 6 that a critical component of the agreement was the receipt of USD 17 million into the public treasury, which would assist any budgetary shortfalls. He echoed Ambassador Shin's positive comments, adding that the agreement would allow exploration to occur in areas that would soon be re-linquished by the Canadian drilling company Encana.

¶4. (SBU) Esso Country Manager Ron Royal told the Ambassador January 27 that Minister Hassan consulted extensively with him on this deal prior to its conclusion. According to

Royal, the agreement between the GOC and Taiwan was referred to as a "carried interest" arrangement (the GOC had a 30 percent share and Taiwan has a 70 percent share). Essentially, the CPC would cover 100 percent of the costs of exploration leading up to discovery. Once a discovery was made, Taiwan would have the opportunity to produce and market the oil until all of the accrued costs were recovered. The GOC would then begin earning revenue. Royal added that the agreement also included an arrangement involving the creation of a national oil company to market the crude oil in the international markets.

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BUDGET PROBLEMS CONTINUE
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¶5. (SBU) The oil deal struck with Taiwan alleviates some short-term budgetary concerns for the GOC. The Chadian press has reported that the GOC, after months of incurred salary arrears, is finally able to pay its civil servants and pensioners. Nevertheless, larger problems with the 2006 Budget persist. During their February 7 meeting, Minister of Finance Abbas Tolli told the Ambassador that the suspension of the PRGF and specific World Bank programs has created a budget deficit of approximately 37 billion CFA, as specific resources were programmed based on the assumption of continued donor support. Tolli stated that the Government will be able to reduce that deficit with the recently-obtained revenues from the Future Generations Fund, which amounted to 27 billion CFA, and 7 billion CFA in budgetary support from the Bank of Central African States (BEAC).

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